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TAGS: EGEN, ECON, XC, XE, XP

SUBJECT: OFFICE OF ECONOMIC POLICY WEEKLY STATUS REPORT
JULY 12, 1977

1. ASEAN

A) ASEAN ECONOMIC MINISTERS MEETING (LOU)

THE ASEAN ECONOMIC MINISTERS MEETING IN SINGAPORE AT THE
END OF JUNE DEALT WITH VARIOUS TOPICS OF ECONOMIC
COOPERATION. AMONG ITS MORE SIGNIFICANT ACCOMPLISHMENTS
WAS AGREEMENT TO EXCHANGE TARIFF PREFERENCES ON 71
PRODUCTS. THE DETAILS, E.G. THE LIST OF PRODUCTS AND
THE DEPTH OF TARIFF CUTS, WILL BE MADE PUBLIC AFTER THE
KUALA LUMPUR SUMMIT APPROVES THEM. WIDJOJO TOLD US THAT
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THE FRAME AGREEMENT AS WELL AS THE PROPOSED IMPLEMENTATION
WILL BE SUBSEQUENTLY SUBMITTED TO GATT AND ONLY AFTER
GATT WAIVER WAS OBTAINED WILL THE ARRANGEMENT BE PUT INTO
EFFECT.

WIDJOJO DURING HIS STAY HERE THIS WEEK ALSO ELABORATED
ON ASEAN'S INDUSTRIAL COOPERATION SCHEME. HE CONFIRMED
WHAT WAS REPORTED FROM THE FIELD THAT OF THE FIVE ASEAN
PROJECTS THE INDONESIAN UREA PLANT IS FURTHEST ADVANCED.

HE DID NOT ALLUDE TO THE DIFFICULTIES WHICH THE SINGAPORE, PHILIPPINE AND MALAYSIAN PROJECTS HAVE. ANOTHER ELEMENT OF INDUSTRIAL COOPERATION ACCORDING TO WIDJOJO IS A CONSULTATIVE PROCEDURE BETWEEN ASEAN MEMBERS TO COORDINATE ON MAJOR NATIONAL INDUSTRIAL PROJECTS. THIS PERTAINS PARTICULARLY TO THE STEEL AND PETROCHEMICAL SECTORS. LASTLY ASEAN SEEKS INDUSTRIAL COORDINATION THROUGH SO-CALLED INDUSTRIAL COMPLEMENTATION PROJECTS IN THE PRIVATE SECTOR.

THE ECONOMIC MINISTERS ALSO REACHED AGREEMENT ON TWO TELECOMMUNICATION PROJECTS, THE ESTABLISHMENT OF AN ASEAN WIDE TELECOMMUNICATION CABLE NETWORK AND THE REGIONAL USE OF THE INDONESIAN SATELLITE. THE LATTER STILL REQUIRES NEGOTIATIONS WITH INTELSAT.

B) JAPAN-ASEAN ECONOMIC TALKS (CONFIDENTIAL)

THE ASEAN ECONOMIC MINISTERS ALSO AGREED TO SEEK FROM JAPAN A "PREFERENTIAL ECONOMIC RELATIONSHIP". FOR THAT PURPOSE A FIVE MEMBER MINISTERIAL DELEGATION, LED BY INDONESIAN TRADE MINISTER RADIUS PRAWIRO, IS VISITING JAPAN THIS WEEK. THE ASEAN REQUEST CONSISTS OF THE CONFIDENTIAL

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FOLLOWING ELEMENTS: 1) PREFERENTIAL ACCESS OF ASEAN PRODUCTS TO THE JAPANESE MARKET; 2) REMOVAL OF NON-TARIFF BARRIERS (PRESUMABLY ON A PREFERENTIAL BASIS); 3) LONG TERM SUPPLY AGREEMENTS; 4) STABILIZATION OF ASEAN COMMODITIES' EXPORT REVENUES; 5) OTHER MEASURES TO INCREASE TRADE BETWEEN JAPAN AND ASEAN; 6) ENCOURAGING JAPAN TO TAKE PART IN THE INDUSTRIAL DEVELOPMENT OF ASEAN; 7) IMPROVEMENT IN THE TRANSFER OF KNOW-HOW AND TECHNOLOGY; 8) COOPERATION IN MARKETING PROMOTION OF ASEAN PRODUCTS IN JAPAN AND THIRD MARKETS; AND 9) DOLLARS ONE BILLION OF CONCESSIONAL AID TO THE ASEAN INDUSTRIAL PROJECTS. ACCORDING TO LATEST REPORT FROM EMBASSY TOKYO THE JAPANESE SIDE WILL "LISTEN" TO THE ASEAN VISITORS' PRESENTATION. ACCORDING TO MIYAMOTO OF THE FOREIGN MINISTRY, THE FOCUS OF THE JAPANESE EFFORT REMAINS AID. POSSIBILITIES FOR TRADE PREFERENCES ARE TO BE CONSIDERED IN A LONG TERM RATHER THAN A SHORT TERM CONTEXT. FOR THE MOMENT JAPAN MUST THINK IN GLOBAL TERMS. THIS ALLEGEDLY ALSO APPLIES TO THE STABEX PROPOSAL.

C) US-ASEAN CONSULTATIONS (LIMITED OFFICIAL USE)

OUR PREPARATIONS FOR THE US-ASEAN CONSULTATIONS ARE PROGRESSING. WE HAVE INSTRUCTED EMBASSY MANILA TO CONVEY OUR VIEWS ON THE SUBSTANCE OF DISCUSSIONS UNDER

DEVELOPMENT COOPERATION AND NORTH-SOUTH ISSUES AND INVESTMENT TO THE PHILIPPINE COORDINATOR. UNDER NORTH-SOUTH ISSUES WE WANT TO HAVE A THOROUGH EXCHANGE OF VIEWS ON A LIST OF COMMODITIES OF PARTICULAR INTEREST TO ASEAN AND ON THE COMMON FUND. THE ASEAN SIDE WILL HAVE ITS FIRST PREPARATORY COORDINATING SESSION FOR THE TALKS THIS WEEK. WIDJOJO TOLD US THAT THE ECONOMIC MINISTERS CONSIDERED BRIEFLY THE US-ASEAN CONSULTATIONS AND SET THREE TOPICS AT THE HEAD OF THEIR PRIORITIES:
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TAX DEFERRAL, TRADE CONCESSIONS AND COMMODITIES. AN MFA SOURCE IN SINGAPORE ALSO INDICATED THAT THE MINISTERS REACHED AN AGREEMENT NOT TO PRESS THE USG FOR "AID" OR "ASSISTANCE". WE WILL HAVE OUR FIRST INTERAGENCY MEETING TO DISCUSS WORK ASSIGNMENTS THIS COMING THURSDAY.

2. COMMON FUND (LIMITED OFFICIAL USE)

THE FIRST MEETING OF THE OECD AD HOC GROUP ON THE COMMON FUND CHARGED WITH DEVELOPING GROUP B PROPOSALS MADE SIGNIFICANT PROGRESS. THIS GROUP WILL MEET AGAIN ON JULY 28 AND WILL CONCENTRATE ON AN ELABORATION OF THE POOLING CONCEPT PARTICULARLY THE QUESTION OF A BACK-UP FACILITY AND THE RELATIONSHIP BETWEEN DEPOSITS AND CREDITS. QUESTIONS CONCERNING THE RELATIONSHIP BETWEEN THE FUND AND INDIVIDUAL COMMODITY AGREEMENTS, PROBLEMS OF ACCESSION TO THE FUND OF NEWLY CREATED ARRANGEMENTS AND MEANS OF ASSESSING THE ECONOMIES WHICH WOULD RESULT FROM POOLING WILL BE POSTPONED UNTIL SEPTEMBER.

UNCTAD SECRETARY GENERAL COREA REITERATED HIS CONCERN OVER THE LACK OF MOVEMENT ON SPECIFIC COMMODITY NEGOTIATIONS TO AMBASSADOR YOUNG. HE BELIEVES THAT THERE WAS A NEED FOR BOTH THE G-77 AND GROUP B TO ASSERT POLITICAL WILL IN ORDER TO ENSURE THAT THE NEGOTIATIONS DO NOT BREAK DOWN.

3. GSP/OPEC EXCLUSION (LIMITED OFFICIAL USE)

THE PRESIDENT HAS DECIDED TO HAVE VICE PRESIDENT MONDALE AND STR STRAUSS CALL CONGRESSMAN VANIK AND SENATOR RIBICOFF TO TRY TO PERSUADE THEM TO POSTPONE THEIR HEARINGS ON THE VARIOUS AMENDMENTS TO THE GSP/OPEC
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EXCLUSION. THE PRESIDENT WANTS MORE TIME TO CONSULT WITH CONGRESS TO DETERMINE IF THE MONDALE OPTION HAS A CHANCE OF PASSAGE BEFORE COMMITTING THE ADMINISTRATION TO ITS SUPPORT.

4. SUGAR (LIMITED OFFICIAL USE)

THE US HAS SUBMITTED A REVISED PROPOSAL FOR AN INTERNATIONAL SUGAR AGREEMENT. THE RESERVE STOCK WOULD BE 3 MILLION METRIC TONS (VS 4 MILLION IN OUR EARLIER PROPOSAL) AND WOULD BE FINANCED BY A SUGAR STABILIZATION FUND WHICH WOULD MAKE INTEREST FREE LOANS TO EXPORTING COUNTRIES TO COVER THE CARRYING COSTS OF THE STOCK. THE FUND WOULD BE FINANCED BY AN EXPORT TAX ON SUGAR (THE INCIDENCE OF WHICH CANNOT BE READILY DETERMINED). THE AMOUNT OF THE FEE IS NOT YET DECIDED BUT WOULD BE RELATIVELY SMALL.

A MEMORANDUM GIVING DISAGREED AGENCY RECOMMENDATIONS ON REDESIGNATION OF SUGAR GSP BENEFICIARIES HAS BEEN SUBMITTED TO THE PRESIDENT. HIS OPTIONS ARE TO DEFER ACTION OR TO DECIDE NOW AND IN THE LATTER CASE TO REDESIGNATE ALL OR ONLY SOME OF THE ELIGIBLE COUNTRIES. STATE RECOMMENDATION IS IN FAVOR OF A MOVE NOW LIMITED TO ONLY FOUR COUNTRIES, INCLUDING THAILAND. GIVEN THE INCREASING PROBLEMS OF THE DOMESTIC SUGAR INDUSTRY AND MOUNTING PRESSURES TO GO BEYOND THE PRESENT INCOME SUPPORT SCHEME, IT SEEMS DOUBTFUL THAT THE PRESIDENT WILL MOVE ON THIS NOW.

5. ADB LIKELY TO CUT LENDING RATE (LIMITED OFFICIAL USE)

THE ASIAN DEVELOPMENT BANK BOARD IS SCHEDULED TO CONSIDER AT ITS JULY 28 MEETING A PROPOSAL TO CUT THE ADB LENDING RATE FROM 8.70 PERCENT TO 8.25 PERCENT. AT STATE/ TREASURY REQUEST, USADB SOUGHT TO PERSUADE BANK CONFIDENTIAL

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MANAGEMENT THAT CUTTING THE LENDING RATE WOULD BE FINANCIALLY UNSOUND BECAUSE THE BANK IS NOT COVERING BORROWING AND ADMINISTRATIVE COSTS EVEN AT THE PRESENT LENDING RATE. THE DEMARCHE WAS SUPPORTED BY SIMILAR APPROACHES TO OTHER DEVELOPED COUNTRY ADB MEMBERS. BANK MANAGEMENT AND MOST OF THE BANK DIRECTORS, HOWEVER, APPEAR COMMITTED TO CUTTING THE RATE TO KEEP THE ADB COMPETITIVE WITH THE WORLD BANK, WHICH HAS JUST REDUCED ITS LENDING RATE TO 8.0 PERCENT.

6. WORLD BANK (UNCLASSIFIED)

ON JULY 5 THE EXECUTIVE DIRECTORS OF THE WORLD BANK APPROVED A NEW MINERALS AND ENERGY PROGRAM FOR THE WORLD BANK GROUP PROPOSED BY THE WORLD BANK STAFF. THE BANK'S PROPOSAL IS THE RESULT OF THE US REQUEST LAST YEAR TO STUDY THE PROBLEM OF INVESTMENT IN MINERALS AND THE US PROPOSAL TO ESTABLISH AN INTER-

NATIONAL RESOURCE BANK (IRB). THE APPROVED PROGRAM
WOULD EXPAND BANK/IDA LENDING IN FY 1980, TAKEN AS

REFERENCE POINT, FROM ABOUT 200 MILLION DOLLARS TO
800 MILLION DOLLARS FOR FUEL AND NON-FUEL MINERAL
PROJECTS AND WOULD INCLUDE SIMILAR INCREASES IN PROJECT
DEVELOPMENT ASSISTANCE AND RELATED ACTIVITY. THE BANK
ESTIMATES THAT, IF THE REGIONAL BANKS JOIN THE WORLD
BANK GROUP IN THIS EFFORT THE IFIS COULD FINANCE
ONE-THIRD OF TOTAL INVESTMENT REQUIREMENTS IN MINERALS
BY 1980. THE COROLLARY OF THE WORLD BANK PROPOSAL IS
ABANDONMENT OF THE IRB.

IN A RELATED ACTION WORLD BANK DONORS AGREED TO RESTORE
THE ELIGIBILITY OF INDONESIA, THAILAND AND THE
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PHILIPPINES FOR SOME IDA PROJECT LENDING. ONCE
SEVERAL SECONDARY QUESTIONS ARE RESOLVED, BANK BOARD
APPROVAL OF THIS CHANGE IN ELIGIBILITY WOULD BE
VIRTUALLY AUTOMATIC.

7. FOREIGN ASSISTANCE LEGISLATION
(LIMITED OFFICIAL USE)

HOUSE AND SENATE CONFEREES ARE MEETING AGAIN JULY 14
ON THE IFI AUTHORIZATION BILL. THE DOLE AMENDMENT
PROHIBITING THE USE OF US FUNDS TO AID INDOCHINA, THE
PALM OIL AMENDMENT AND HUMAN RIGHTS ARE THE MAIN ISSUES
STILL TO BE RESOLVED. SENATE MARK-UP OF THE IFI
APPROPRIATIONS BILL IS SCHEDULED FOR JULY 15. THE
ADMINISTRATION IS MAKING EVERY EFFORT, AND HAS ASKED
THE PRESIDENT TO ASSIST, TO PREVENT ADOPTION OF
RESTRICTIVE AMENDMENTS AND TO GAIN ACCEPTANCE OF
FUNDING AT THE LEVELS REQUESTED BY THE ADMINISTRATION.

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